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Supreme Court of the United States

OCTOBER TERM, 1946.

NO. 28.

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, Respondent.

RESPONDENT'S REPLY TO BRIEF AMICUS CURIAE.

On Writ of Certiorari to the Supreme Court of the Commonwealth of Pennsylvania.

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REPLY OF RESPONDENT, WESTINGHOUSE, TO THE BRIEF FOR THE UNITED STATES AS AMICUS CURIAE.

Our reply to the Government's brief involves the following basic arguments:

1. The doctrine that a licensee under a patent cannot defend a suit for royalties by denying validity of the licensed patent, while retaining his status as a licensee, and enjoying the benefits of the license, is thoroughly and universally established in our general law, and has been accepted for at least ninety years. This statement applies to both federal and state courts, and to the courts of England and Canada.

2. The licensee under a patent receives definite considerations of value such as (a) immunity from suit

for himself and his customers; (b) the right to operate without risk, in a field protected by the patent from free competition by third parties; and (c) the advantage of selling the licensed product as "patented" subject matter.* Since all patents duly granted by the United States Patent Office are *prima facie* valid, and are so regarded until the contrary is definitely established, there is obviously a valuable consideration flowing to the licensee under any patent license, until and unless the licensee is evicted by some circumstance terminating the value of the license. He may then stand from under and defend without prejudice because of the license. Examples of such eviction are a disclaimer, or a narrowing reissue, by the patent owner, or an adjudication of invalidity, or a limitation of the scope of the claims of the patent, reducing or destroying the benefits contemplated by the license contract. Until such an eviction occurs, the licensee receives advantages from the license, whether the patent is in fact valid or invalid, and his contract to pay is enforceable under the general law of contracts.

3. A suit for royalties under a patent license involves merely the enforcement of a contract. It does not require enforcement of a patent, and it binds no one but the parties. It merely seeks to require the licensee to make the payments he has agreed to make. Such suits arise under and are based on the general law of contracts. Except in special cases, they do not involve federal patent law, or federal anti-trust law, and the federal courts have no jurisdiction.

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* In the case at bar, MacGregor also was allowed to share a business built up by the licensor, and was put into position to compete for licensor's customers.

The brief of the Department of Justice as *amicus curiae* urges the Court to decide (1) that federal patent and anti-trust laws require that a licensee should not be estopped under any circumstance to challenge validity of the licensed patent; (2) that whether a licensee is estopped to challenge a patent's validity is always a question of federal law, and (3) that, regardless of the general proposition first stated, no estoppel may be based upon a license agreement *containing* price-fixing provisions, regardless of whether enforcement of those provisions is in issue in the proceeding in which estoppel is asserted.

The brief *amicus* urges the Court to make these holdings on the ground that "it seems to be plainly in the public interest that these questions be authoritatively determined."

Regardless of the public interest in having an advisory decision on these questions, we respectfully submit that in our particular case, as we have endeavored to show in our main brief, a decision on any of these questions would be moot, since the money judgment of the state court below based on the MacGregor contract would stand, on the ground of severability, if illegal, of the price-control clauses, regardless of this Court's decision on the moot points raised in the brief *amicus curiae.*

The argument that there is no basis for refusing to allow a licensee to deny validity of the patent under which he holds a license is *extremely tenuous,* at best. There are few cases that indicate any support for the argument. The brief *amicus* has presented the reasoning therein. On the other side, there are literally dozens of

cases, in an unbroken succession down to the present time, holding the opposite, namely that there is such "estoppel". The brief *amicus* admits that this doctrine of estoppel "does not rest upon statute but is a rule fashioned by the courts in attempted adjustment of equities". It then argues that in such a case, the court should be on sure ground as to equities before giving the doctrine sanction. To this we reply that dozens of cases have considered this question, and the equities involved, and have, with substantial unanimity, arrived at the same result, i.e., the rule referred to above. That seems to us almost conclusively persuasive that the "rule" does stand upon sure ground.

Rights under patents do not constitute objectionable monopolies.

Parenthetically, and as a preliminary to our discussion of the questions raised by the brief *amicus,* we point out that patents for invention are *not* odious monopolies *per se,* contrary to public policy, and hence to be stricken down wherever possible. Our industrial progress and prosperity has been in large part due to the liberal patent system of the United States. Many writers, speakers, and jurists have so declared. We take it that no extended argument or citation of authority on this point is necessary or desirable here. We content ourselves with one quotation. WALKER ON PATENTS, latest edition, at page 27, says:

> "A patent is not a monopoly; it is not a grant made in derogation of some common right, the patentee takes nothing from the community; he is a great public benefactor, because he gives to the com-

munity his invention for the reward provided by the statute in the form of Letters Patent granted to him which is, in effect, a contract between the inventor and the public. Such contract is a bargain with the public, to be supported on the ground of mutual considerations, and is to be construed on the same principles as control the construction of all contracts, each having rights and interests therein."

The doctrine of "licensee-estoppel" is firmly established in the general law.

The doctrine that a licensee under a patent is "estopped to deny validity" of the licensed patent while retaining his rights under the license, is very old. It stands accepted in all the courts of this country, and by the standard text books and reference works as a thoroughly established principle of general contract law. For example, ROBINSON ON PATENTS, published in 1890, Vol. II, in Section 820 at page 607, states:

"A licensee, having accepted a license, and while exercising under its protection the rights therein conferred, is estopped from denying the validity of the patent in any suit in which such exercise of his license privilege is the basis of the controversy."

The author then goes on to say that before a licensee can attack validity, he must

"repudiate the license, cease to claim its protection, and as to his future exercise of the privileges described therein, defend himself upon the ground that the patent is invalid."

In [illegible]pport of these principles, Robinson cites a num[illegible] early cases. Among these are the following:

Dean v. Hodge (1886) 35 Min. 146;
Rogers v. Riessner (1887) 30 F.R. 525;
McKay v. Jackman (1883) 17 F.R. 641;
White v. Lee (1882) 14 F.R. 789;
Brown v. Lapham (1886) 27 F.R. 77;
Baltimore v. Railway Co. (1884) 21 F.R. 47.

In *White v. Lee,* 14 F.R. 789 (1882), Judge Lowell treats at some length the question of "estoppel of a licensee" to deny validity of the licensed patent, in a suit for royalties. He discusses a number of the older cases both in the United States and England and, at page 791, states:

> "The law is, I think, that a plea or answer that the patent is void, is not, of itself, a sufficient defense, but that evidence of what may be called an eviction is such defense. The difficulty is to ascertain what amounts to an eviction in a patent case."

After discussing a number of cases, the opinion continues:

> "These cases point to the true distinction, however difficult its application may sometimes be, that something corresponding to eviction must be proved if a licensee would defend against an action for royalties."

In *McKay v. Jackman,* 17 F.R. 641 (1883), the court, in holding that the defense of invalidity by a licensee sued for royalties could not be made, said at page 643:

> "This subject has been so lately examined by Judge Lowell, in *White v. Lee,* 14 F.R. 789, and the conclusion reached by him there upon review of the authorities, that without an eviction or its equiva-

lent the royalties must be paid, is so satisfactory, that nothing further on this point than a reference to that decision seems necessary.

"These views seem to be conclusive to the effect that those royalties already paid cannot be recovered back."

In the treatise entitled "PATENTABILITY AND VALIDITY" by Rivise and Caesar, published in 1936, the authors, in Section 10, page 21, say:

"The following decisions are cited to the effect that a licensee under a patent cannot during the continuance of the license agreement dispute the validity of the patent:

United States v. Harvey Steel Co., 196 U.S. 310 (1905);

Chadeloid Chemical Co. v. Charles McAdam Co., 298 Fed. Rep. 713 (C.C.A. 2—1924);

United Engineering & Foundry Co. v. Cold Metal Process Co., 68 Fed. Rep. (2nd) 564 (C.C.A. 3—1934);

Baker Oil Tools, Inc. v. Burch, 71 Fed. Rep. (2nd) 31 (C.C.A. 10—1934).

In *Baker Oil Tools v. Burch, supra*, the court, at page 35 of its opinion, said:

"Baker, holding a license from Burch, is estopped to deny the validity of the Burch patents. *Swan Carburetor Co. v. General Motors Corporation* (D.C. Ohio) 42 F. (2d) 452, affirmed (C.C.A. 6) 44 F. (2d) 24; *Hewitt v. American Telephone & Telegraph Co.* (D.C.N.Y.) 272 F. 194, affirmed (C.C.A. 2) 272 F. 392; *Eureka Company v. Bailey Co.*, 11 Wall. 488, 20 L. Ed. 209. A licensee, however, may

explore the prior art for the purpose of ascertaining the breadth of the claims of the patent licensed. *Westinghouse Co. v. Formica Co.*, 266 U.S. 342, 45 S. Ct. 117, 69 L. Ed. 316."

CORPUS JURIS, Section 460, states the principle as follows:

"A licensee, where the patent which is the subject matter of the license is apparently valid and in force, cannot, when sued for royalties payable under the agreement, set up the supposed invalidity of the patent and the consequent failure of consideration of the agreement, especially where he has, by his contract, acknowledged its validity and agreed not to contest it, and in order to permit the licensee to defend by attacking the validity of the patent something corresponding to an eviction from the enjoyment of the rights conferred by the license must be shown."

In support of this principle it cites many cases in federal courts, including *Kinsman v. Parkhurst*, 59 U.S. 289, decisions in the supreme courts of Connecticut, Illinois, Iowa, Maine, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, and Wisconsin, and decisions by the highest courts of England and Canada.

30 CYC 964 states the principle as follows (citing many state and federal cases):

"The licensee is liable during the continuation of the contract for the use of the invention referred to therein, whether it is fully protected by patent or not. He cannot allege invalidity or termination of contract so long as he acts under it."

In the standard work, BIGELOW ON ESTOPPEL, Sixth Edition, published in 1913, the author at page 597, makes a pertinent statement of the general law, and includes specific reference to patent licenses. We quote it here.

> "4. *Employees: Assignees and Licensees: Patents* A similar rule of law applies to employees and contracting parties generally; they cannot accept the benefits of the contract and yet, when called upon to perform their duties under it, repudiate it as made without right, or as otherwise wanting in force, if it is not actually in violation of law, or wholly void. The assignee or the licensee of any right, accepted and acted under, may accordingly be estopped to deny the authority from which the right proceeds. Thus, an assignee or a licensee of a patent, apparently valid and in force, who has acted under it and received profits from the sale of the patented article, will be estopped to deny the validity of the patent in an action by the patentee to recover royalties or to obtain an account."

Probably the latest standard text on patent law is WALKER ON PATENTS (Deller's Edition), published in 1937. Walker and Robinson have been many times cited by this Court as authority in patent cases. In this latest edition, Walker says in Section 383, page 1492:

> "No warranty of validity of the Letters Patent is implied in any license given thereunder; and a licensee may not dispute the validity of the patent in a suit for royalties."

In support of this statement, the author cites numerous cases, including *Kinsman v. Parkhurst*, 59 U.S. 289.

The courts, in considering the right of a licensee to resist payment of royalties while retaining his license, by a denial of validity of the patent under which he holds a license, have reasoned that so long as licensee has what he bargained for, he must live up to his contract. To escape payment he must show some special circumstance, such as fraud, an eviction, etc., and at least must surrender any claim of benefit under the license.

There are many cases that go into the reasons. They are mostly old state court cases. The principle under discussion has been generally established for at least ninety years in this country, and in England. Typical of such reasoning is that in the three cases cited just below.

In *Marsh v. Harris Mfg. Co.*, 63 Wis. 276, 282-3, the court said:

> "Be this as it may, it is clear to us that upon the facts the defendant cannot successfully defend an action for the royalties on the ground of the invalidity of the patents. It has had the benefit of these patents, which were apparently valid. It has not been disturbed in the use of them by any one. It has not been adjudicated by any court that these patents were void, or that the plaintiff was not the first inventor of the improvements patented. It is fair to assume that the defendant is manufacturing and putting upon the market these very patented machines, and that it is viewing and enjoying all the benefits of the patents which it contracted for. What justice or equity is there in its claim that it should be relieved from the payment of the royal-

ties? We certainly can see none; and the authorities upon the question do not support the claim.

The cases cited upon the brief of plaintiff's counsel are distinct upon this point. The English cases appear steadily to resist all attempts of licensees, under patents apparently valid, to raise the question of their invalidity in an action for the royalty. The decisions in this country are in substantial accord with that view."

In *Hanson v. Hall,* 184 Iowa 1091, 1099, the court said:

"It does not avail it [defendant-licensee] to say that the patent was no good. *It was competent for it to contract to pay a royalty, even on an unpatented device.** *Ingraham v. Schaum,* 157 Pa. 88, 89. Nor was it competent to the defendant to impeach the validity of the patent."

In *Jones v. Burnham,* 67 Maine 93 (1877), the court reviews several older cases and states the reasoning upon which defendant was precluded from attacking the patent under which he was licensed. The trial judge said (p. 95):

"The defendants then were in a position where they could adopt either one of two courses. They could treat the patent as invalid, and proceed to manufacture the article in defiance of the patent, and abide the consequences, whatever they might be.

The second course was to make some arrangement with the person holding the apparent legal right to

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* All emphasis in quotations in this brief has been added.

the patent, by which they could manufacture the article by his consent, without subjecting themselves to damages in case the patent was sustained. This course the defendants adopted. They made an agreement by which they were to pay twenty-five cents a dozen as a royalty to holders of the patent. Leaving out the question of fraud, which is open to the defendants if they propose to establish it by any competent evidence, the question arises here, whether, under the pleadings, the defense of want or failure of consideration of the contract has been sustained, or whether this record of the supreme court tends to sustain such a defense.

In my view of the case it does not. I think the consideration which the defendants received was the right to manufacture the patented article during the year 1875 without fear of legal proceedings being instituted against them, and purchasers from them were protected from any litigation. In my judgment, that is a sufficient legal consideration for the contract itself; and I shall rule in the absence of proof of notice or any act tending to terminate the contract, and in the absence of fraud, that corn packed by the defendants under this process, prior to the decision of the supreme court, must pay the royalty in accordance with the terms of the agreement."

The appellate court in affirming, said (pp. 97-8):

"A license is not an assignment of the patent. It is simply a permission to do certain things under it. In *Lawes v Purser*, 88 E.C.L. 930, which is like the case at bar, Lord Campbell says, 'what then is the plea? Simply that the patent is void; and, if

it could be shown that the patent was, for any reason whatever, invalid, the plea and every allegation in it would be proved. Then, there having been such an agreement as stated in the declaration, and permission to use the invention having been enjoyed under it, can it be permitted to the defendants, after such a contract and such acquiescence on their part in the plaintiff's claim, and such enjoyment by them of the invention, to say that they will not pay the stipulated price because the patent is void, and so to force the plaintiff to try his right to the patent in this action at great disadvantage. I am of opinion that the defendants, not denying that they have used the invention under the agreement, cannot set up this defense. This plea would be proved though the plaintiff had really made a useful invention, and had taken out a patent for it, treated by every one as valid and supposed by all parties to be so, if at the time of the trial it were discovered, for the first time, that there had been some previous use of the invention or some part of it, though utterly unknown both to the plaintiff and defendants. *It would be monstrous if the defendants after such an agreement acted upon could, on this ground, refuse payment.* No fraud is alleged. No renunciation of the permission, warning the plaintiff that the defendants meant to claim to use the invention in their own right, is averred. *I think therefore it would be contrary to all principle to hold this plea good.'* In *Smith v. Neale,* 89 E.C.L. 67, 89, Willes, J., says: 'In short, the defendant in this case *contracted for the plaintiff's right, such as it was, without regard to whether it could be sustained*

> *upon litigation or not; and there is nothing unreasonable or uncommon in such a bargain.'* In *Norton v. Brooks,* 7 H. & N. 499, it was held that if a patentee, in consideration of a royalty, grants to another a license to use the patent invention, and the latter uses it, he cannot plead as a defense to an action for the royalty, that the invention was not new, or that the patentee was not the first inventor. 'So long as the term of the patent lasts, if the defendant chooses to work under it,' remarks Pollock, C.B., 'he must pay the stipulated price.' To the same effect are *Hall v. Conder,* 89 E.C.L. 22. *Baird v. Neilson,* 8 Cl. & Fin. 726. *Trotman v. Wood,* 16 C.B. (N.S.) 479. *Taylor v. Hare,* 4 B.&P. 260. In *Adie v. Clark,* 2 Law Rep. App. cases, 423, it was held in the Vice Chancellor's court, that the licensee of a patent cannot dispute its validity.
>
> The decisions in this country are to the same effect."

In the recent case of *DeCew v. Union Bag & Paper Corp.,* 57 F. Sup. 388 (1944), (not appealed) the court did not, as most courts have been prone to do, content itself with reiterating that a licensee in a suit for royalties is "estopped to deny" the validity of the licensed patent. It emphasized the mutual contractual obligations, saying at page 402:

> "The licensor is estopped to deny the right of the licensee to the lawful use of the invention; the licensee is estopped to deny the right of the licensor to the lawful compensation for such use, and, as a necessary incident thereto, is estopped to deny

the validity of the patent. The license agreement is equally determinative of the *contractual rights of the parties* and the limits of the mutual estoppel."

There are many other cases, in nearly all of the states, and in all of the federal circuits, following the principle under discussion. These go back to 1850. Thus it appears that the doctrine of "licensee *estoppel*" is firmly established in the general law of contracts, in all courts of this country, England, and Canada.

The expression "estoppel of a licensee to deny validity" is an unfortunate and misleading expression.

The Government's brief *amicus curiae* argues that estoppels are not favored in the law, that the public interest requires that licensees should be allowed at any time to prove an invalid patent invalid, etc. Questions asked by the late Chief Justice at the first argument of this case indicated that he thought application of the doctrine of licensee "estoppel" might operate to trap the licensee in an inequitable and helpless position without an opportunity to show a good defense to fulfilling an unfortunate contract.

The courts and text writers have in most cases referred to the principle that a licensee cannot in a suit for royalties defend by denying validity of the licensed patent, as an "estoppel". Apparently they have followed the term as used in some of the first cases. Upon careful analysis of the cases, and consideration of the situation under discussion, from the point of view of general law, it seems to us that the use of the term "estoppel to deny validity" is historical in origin, and has been some-

what unfortunate, because admittedly courts hesitate to enforce estoppels. The term carries an implication of a trapped licensee that does not in fact properly apply to the situation here under consideration. A more accurate statement of the true principle involved would be that the licensee under a patent, so long as he holds the license, must live up to his obligations as provided by the contract, because so long as he is a licensee he is getting what he bargained for, regardless of whether the patent is valid or invalid. He has had his chance to question validity before he takes the license, and gets the benefits of a patent license, so long as he has the license. As we have shown above, there is no warranty of validity implied by the grant of a patent license.

Reduced to its simplest terms, a patent license is merely a reciprocal contract between the parties. The licensor agrees not to sue the licensee or his customers under his patent so long as the license is in force, and to allow licensee to share the benefits of the exclusion from competition contemplated by the patent, and to enter and reap in the field claimed by the patent. The licensee agrees to pay a royalty for those concessions. There is obviously a good and valuable consideration flowing from each party to the other. The real issue in suits for royalty is: *Shall licensee be required to fulfill his express contract*?

The ordinarily used term "estoppel to deny validity" as applied to the licensee simply means therefore, that so long as the licensee holds what he bargained for, he must pay what he agreed to pay for it. It presents hardly more of a case of "estoppel" than any other suit on a contract where a party has agreed to make

payments, and refuses to do so. The doctrine stated in other words is that a licensee is bound to pay, in accordance with his contract, and will not be heard to refuse because he finds he has made a bad bargain, or has changed his mind as to the value of the consideration flowing to him under the contract, under which he still has immunity from suit as an infringer.

A licensee is not "trapped"
by "estoppel to deny validity."

There are many cases holding that a licensee may deny validity of the licensed patent, *provided* he renounces his rights under the contract, and stands clear, so that his immunity from suit as an infringer is given up. Consequently, a licensee, by taking a patent license, is not forever foreclosing himself from escape if he later discovers that the patent is invalid. We know of no recent case that permits him to deny validity while retaining the benefits of the license. There would have to be some very special circumstance to justify such a position. Certainly there is no such factor in the MacGregor case.

The principles referred to in the preceding paragraph are discussed at length in "PATENT ASSIGNMENTS AND LICENSES", by Risdale Ellis, 1943 Edition, Section 811, pages 814-8. Many cases are there cited. This is one of the latest authoritative texts on the subject of patent licenses. We respectfully refer the Court to this book and the author's citations, in lieu of citing the many applicable cases on the point. One of the cases cited by Ellis is by the Supreme Court of Pennsylvania: *Edison v. Thackara Manufacturing Co.*, 167 Pa. 530.

Patent licenses are entered into advisedly.

Patent licenses, like any other contracts, are ordinarily, and must be presumed to be, entered into by the parties after proper consideration, on each side, of the advantages and disadvantages thereof. We think the court will take judicial notice that it is customary for a licensee before taking a license involving substantial considerations to investigate the validity and scope of the patent under which a license is offered or sought. That is as common as a title search by a prospective purchaser of real property. In the absence of fraud or coercion of some kind, the parties are presumed to deal at arm's length, and to have assumed the chances, results, contingencies, and obligations normally contemplated by such a contract.

Any patent may be declared invalid at any stage of its life. Validity is normally in issue when attempt is made to enforce a patent by litigation. Consequently, it must be presumed that any one who signs a license contract knows that the patent *may* he held invalid, but that he has decided the value of the license justifies the royalty. In taking the contract, licensee has necessarily assumed and weighed the chances which inevitably exist of invalidity of the patent. He has decided that he prefers to pay royalty for what he gets by the license rather than to take his chances as an infringer. He has had, and has exercised, his option before he took the license, of acquiring immunity and protection from competition under the patent, of taking his chances as an infringer of the patent, or of respecting it and staying out of the patented field altogether.

When he elects to take a license he removes all threat of suit by the patent owner. He stands in privity with the patent owner, and secures, besides freedom from danger of suit for himself and his customers, a part in the immunity from competition in the patented field which it is an object of the patent laws to provide. Those advantages he has from the taking of the license, even though the patent should eventually be declared invalid. *They are not without immediate value in spite of the ever-present possibility that the licensed patent, like any other patent, may at some later date, be declared invalid.*

The anti-trust laws should not encourage breach of contract.

The brief *amicus curiae* argues that the public interest as set forth in the patent statutes and the anti-trust laws is inconsistent with preventing a licensee at any stage from asserting and proving invalidity of the licensed patent. We think the argument is unsound for several reasons. One is that there is a public interest in fair dealing and enforcement of contracts. We think, in the absence of special circumstances, not here present, it is against public policy and good business morals to encourage or permit a licensee, while holding the benefits of a license, to attack its basis,—the patent under which he is licensed. The moral point needs no elaboration.

We understand that the patent laws and the anti-trust laws are equal in standing and effect, and that each should be construed so as not to negative the object and effect of the other. This Court has repeatedly held

that it is not a violation of the anti-trust laws to control licensee's prices under a patent. That, of course, means a valid patent, but this Court has also held in effect that patents are valid until they are proved to be invalid. Consequently, we think a patent license agreement containing price-control clauses is valid and should be so treated for all purposes of enforcement until and unless it becomes clear by a proper adjudication that the patent is invalid. Certainly there should be no such presumption of illegality as to justify this Court in overruling the established principles of general law relating to enforcement of license contracts, unless it is clear that violation of federal law is contemplated, and will necessarily follow, if the general law is applied.

This Court has established as law in the *Sola* case that *if a court is asked to enforce a price-control clause,* validity of the patent upon which the contract is based may be placed in issue by the defendant to support his "challenge" of the legality of the price-control clause. Beyond that, we respectfully submit, the principle of the *Sola* case does not go. The brief *amicus* states no sufficient reason of public policy for extending the doctrine to cases where enforcement of price-control is not in issue.

The brief *amicus* at page 11 argues that "public interest" requires that the validity of a patent be open for test in the courts "when properly challenged by a party with undoubted legal standing." We have no quarrel with that statement, and we know of no case in which *such* a party cannot test the validity of a patent. Anyone charged with infringement of a patent may challenge its validity, unless his own acts or agreement have

deprived him of that right. Holding the benefits of a license removes the "legal standing" while the licensee relationship continues.

At page 12, the brief *amicus* relies on *Pope v. Gormully,* 144 U. S. 224, and *Scott v. Marcalus,* 326 U. S. 249. In the *Pope* case the agreement attempted to enforce an estoppel to attack the validity of a large group of patents under which *no license was granted* and that was held to be an *unreasonable restriction* falling under the well established equitable principle that an *unconscionable contract* will not be enforced. The *Marcalus* case involved a very special situation, to say the least about it. Certainly, it does not, in our opinion, lay down any broad governing principle of public policy that negatives the propriety of refusing to permit a licensee to deny validity of a patent under which he holds benefits as a licensee.

On page 14, the brief *amicus* argues, in effect that patents are "monopolies" and therefore are repugnant to public policy, and the best interests of the public. That argument would put every patentee on the defensive because he holds a patent, and provide that he must be prepared and required at every turn, regardless of contractual terms, to defend the validity of his claim, and excuse himself for being a patent owner.

We think this part of the brief *amicus* shows the spirit and incentive of the whole argument. It is based on a hostility to, and disbelief in the value of patents, *per se.* This brief emanates from the Anti-Trust Division of the Department of Justice where some hundreds of lawyers are continuously occupied in the prevention of restraints on trade, and in attempts to suppress what they call "monopolies". The patent laws, much older

than the anti-trust laws, constitute an exception to the latter, and doubtless afford great annoyance and some difficulties to the staff of the Anti-Trust Division in their efforts. That is no reason, however, we respectfully submit, for weakening or attacking the patent system that has been established long prior to the anti-trust acts, as an important feature of the national economy.

At pages 14 and 15, the brief *amicus curiae* argues that a bad patent should be declared invalid at every opportunity. That may be true in infringement suits, but it does not have any pertinency to the enforcement of contracts between licensor and licensee, where validity of the patent is obviously a preliminary presumption of the parties and a basis for the contract. The issues between such parties are purely private matters, and so long as no federal law is violated, there is no reason for the federal courts to seek to acquire jurisdiction of such contract cases, as a vehicle for testing the validity of patents. As we have shown above, there is nothing illegal, or unusual, in parties agreeing that one should pay the other royalty *even in the absence of a patent.* Royalty payments may be based properly on the furnishing of engineering information, research facilities, and trade advantages of various kinds, without entering any forbidden field. If one party gets an advantage that he is willing to pay for, or thinks he is getting such advantage, whether in fact he gets it or not, and agrees to pay for it, a contract to that effect is obviously proper and enforceable—provided there is no illegal object or result.

The "estoppel" of a licensee to deny validity is a matter of general, not federal, law.

Section "II" of the brief *amicus* argues that the question of licensee's estoppel to deny validity of the licensed patent presents a question of *federal* law, as distinguished from general or state law. We differ positively with the Department of Justice on this point. The authorities cited in the brief *amicus* do not support the argument. In the *Sola* case, this Court merely held, as we understand, that the estoppel normally applied by state courts cannot be allowed to secure enforcement of a contract *where the result would be a breach of federal law.* It did not say, or intimate, that in the absence of a price-control clause, or had that clause not been in suit, that this Court would have held that licensee could defend a suit for royalty by denying validity of the patent. As we read the decision, it does not decide or even indicate that the question of licensee-estoppel is a federal question. On the contrary, it refers to it specifically as a "local rule of estoppel". The *Sola* case was brought in the federal court, and no issue of whether the estoppel was state or federal appears to have been raised. The wording of the court's opinion indicates to us that the question of estoppel was treated as a matter of *state* law, except insofar as enforcing the estoppel might result in protecting a violation of federal law.

Suits on patent licenses are contract suits and fall exclusively in the realm of general law. They necessarily arise under state law, and normally in state courts. Only in the event of diversity of citizenship do the federal courts acquire jurisdiction in license contract cases. In that special circumstance the federal

court applies the pertinent state law, and in effect, merely substitutes for the state court because of the special relations of the parties,—not because the case is governed by or involves federal substantive law. *Holmberg v. Albrecht,* 66 S. Ct. 582. Federal courts have no jurisdiction over suits based on patent licenses because of the federal patent statutes, or because a patent is incidentally involved. This is made clear by this Court in the case of *Luckett v. Delpark,* 270 U. S. 496; 46 S. Ct. 397, where the Court said (p. 502):

> "[3] It is a general rule that a suit by a patentee for royalties under a license or assignment granted by him, or for any remedy in respect of a contract permitting use of the patent, is not a suit under the patent laws of the United States and cannot be maintained in a federal court as such."

That has been the law stated by this Court from a very early date. See *Dale v. Hyatt,* 125 U.S. 46, 8 S. Ct. 756, and *Felix v. Scharnweber,* 125 U.S. 54, 8 S. Ct. 759.

Those cases seem to us a complete answer to the argument of *amicus* that this question of "licensee estoppel" arises under or involves federal law, *per se.*

In its Section "III," the brief *amicus* argues that no estoppel to deny validity exists in connection with contracts containing price-fixing provisions. This argument involves a construction of the *Sola case.* It has been sufficiently answered in our main brief, and need not be repeated here.

Conclusion.

The doctrine that a licensee, while holding rights under a license contract, will not ordinarily be heard in a suit for accrued royalties to deny validity of the licensed patent, has been thoroughly established as a principle of general law for at least ninety years. Such suits arise under the law of contracts, are not based on federal patent statutes, and, in the absence of special circumstances, federal courts have no jurisdiction thereover. A special case is where judicial enforcement of a condition in the contract would result in violation of federal law. In such a case, validity of the patent can be put in issue as a defense to judicial enforcement of that part of the contract that would be illegal. The *Sola* case has so established.

Patents are presumptively valid. Price restrictive clauses in patent licenses are presumptively proper and legal. Only where such a clause is directly in issue in a plea for its enforcement, is there any federal law involved. As between the parties, a patent license contract is based on presumed validity of the patent, and the public is not interested in a suit for royalties.

Patents are not odious monopolies. There is no public policy that requires that courts seek every opportunity to strike them down. Ordinary principles of fair dealing and public policy require that *bona fide* patent licenses should be enforced under general principles of contract law, and that licensees, while holding valuable concessions from the licensors, be required to live up to their obligations to pay royalty.

The *Sola* case has established a principle that takes care of all cases where estoppel might result in judicial

enforcement of any provision of a patent license that might result in violation of federal statutes. There is no need, for the public protection, to extend it further. To do so would, in effect, impose by judicial interpretation a penalty on the mere putting of a price-control clause in a patent license. This court has expressly held that such restrictions in a patent license are not *per se* illegal.

No patent is ever absolutely established as "valid", regardless of adjudication, so the decision requested in the brief *amicus curiae* would seriously discourage the granting of any patent licenses. It would tend to suppress, not to promote, competition, for obviously the granting of licenses under patents promotes competition. Anything that discourages or prevents the granting of patent licenses would be against the public interest on the very arguments advanced herein by the brief *amicus curiae*.

Respectfully submitted,

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